

KINGMAN AIRPORT AUTHORITY, INC.

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2006

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ANNUAL FINANCIAL REPORT
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors of the
Kingman Airport Authority, Inc.

We have audited the accompanying financial statements of the business-type activities of the Kingman Airport Authority, Inc. (Authority), as of and for the year ended June 30, 2006, which collectively comprise the Kingman Airport Authority, Inc.'s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kingman Airport Authority, Inc.'s management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Kingman Airport Authority, Inc., as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 - 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. In addition, the schedule of net income presented on page 26 is not part of the basic financial statements, but is presented as supplementary information. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Cronstrom, Osuch & Company, P.C.

Cronstrom, Osuch & Company, P.C.

October 26, 2006

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Management's Discussion and Analysis

We (the Kingman Airport Authority, Inc. (Authority)) are pleased to provide an overview of our financial activities for the fiscal year ended June 30, 2006. The intended purpose of Management's Discussion and Analysis (MD&A) is to provide an introduction to the basic financial statements and notes, that provides an objective and easy to read analysis of our financial activities based on currently known facts, decisions, and conditions, by providing an easily readable summary of operating results and reasons for changes, which will help to determine if our financial position improved or deteriorated over the past year. This report addresses current operational activities, the sources, uses, and changes in resources, adherence to budget, service levels, limitations, significant economic factors, and the status of infrastructure and its impacts on our debt and operation.

Financial Highlights

- ◆ The assets of the Kingman Airport Authority, Inc. exceeded its liabilities at the close of the most recent fiscal year by \$14,858,188 (net assets). Total net assets include \$11,198,869 in capital assets net of related debt and \$3,659,319 in unrestricted assets.
- ◆ The Kingman Airport Authority, Inc.'s operations produced an operating loss of \$961,299 for the fiscal year. Although much of this loss can be attributable to non-cash depreciation expense on assets that were contributed by the federal government or acquired with the aid of grants, the Authority still relies on revenue from the building space and hangars that are continually leased to other parties
- ◆ During the year total net assets increased by \$4,793,681. This increase was mainly due to a significant increase in land sales.
- ◆ Lease revenues decreased by 1% to \$541,498.

Overview of the Financial Statements

This discussion and analysis serves to introduce the Authority's basic financial statements. The Authority's basic financial statements have two components: 1) fund financial statements, and 2) notes to the basic financial statements. Separate government-wide financial statements are not presented since the Authority has only one fund.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Kingman Airport Authority, Inc., like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Unlike most other governments, which have multiple funds, all of the Authority's activities are business-type activities and are accounted for in a single proprietary fund.

Proprietary funds. The Kingman Airport Authority, Inc. maintains its accounting records in a single enterprise fund. An *Enterprise fund* is a type of proprietary fund used to report *business-type activities*.

The basic proprietary fund financial statements can be found on pages 10 - 13 of this report.

The *statement of net assets* presents information on the Authority's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating.

The *statement of revenues, expenses and changes in fund net assets* presents information on how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Notes to the basic financial statements. The notes to the basic financial statements (pages 15 - 23) provide additional information that is essential to a full understanding of the data provided in the fund financial statements and should be read with the financial statements.

Financial Analysis

Net assets may serve as useful indicators of a government's financial position. At the end of the fiscal year, the Kingman Airport Authority, Inc.'s assets exceeded liabilities by \$14,858,188.

Airports are capital-intensive enterprises. Approximately 75% of the Authority's net assets are invested in capital assets, less any related debt used to acquire those assets that is still outstanding. The Authority uses these assets to provide aviation access and services to the flying public and the surrounding community; consequently, these assets are not available for future spending. Although, the Authority's investment in capital assets is reported net of related debt, the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Kingman Airport Authority, Inc.

Net Assets

June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Current and other assets	\$ 3,667,660	\$ 642,426	470.9 %
Capital assets, net of accumulated depreciation	<u>11,855,958</u>	<u>10,140,272</u>	16.9
Total assets	<u>15,523,618</u>	<u>10,782,698</u>	
Long-term liabilities	601,683	657,089	(8.4)
Other liabilities	<u>63,747</u>	<u>61,102</u>	4.3
Total liabilities	<u>665,430</u>	<u>718,191</u>	
Net assets:			
Invested in capital assets, net of related debt	11,198,869	9,430,200	18.8
Unrestricted	<u>3,659,319</u>	<u>634,307</u>	476.9
Total net assets	<u>\$ 14,858,188</u>	<u>\$ 10,064,507</u>	

Net assets increased by \$4,793,681, or 48% from the previous fiscal year-end. This was primarily due to the high amount of land sales during the fiscal year. Much of that revenue has yet to be spent on capital projects. As a result of the excess cash on hand, current assets increased in the fiscal year 2005-06 by \$3,025,234.

Business-type activities

All of the Authority's activities are classified as business-type activities. At the end of the current fiscal year, the Kingman Airport Authority, Inc. is able to report a positive balance in its net assets.

Kingman Airport Authority, Inc. Changes in Net Assets Fiscal Years Ended June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>	<u>% Change</u>
Revenues:			
Leases	\$ 541,498	\$ 547,222	(1.0)%
Capital grants and contributions	2,258,113	1,535,703	47.0
Other	<u>3,579,448</u>	<u>235,401</u>	1,420.6
Total revenues	<u>6,379,059</u>	<u>2,318,326</u>	
Expenses:			
Depreciation	660,493	579,226	14.0
Other operating expenses	889,269	848,074	4.9
Non-operating expenses	<u>35,616</u>	<u>35,536</u>	0.2
Total expenses	<u>1,585,378</u>	<u>1,462,836</u>	
Change in net assets	4,793,681	855,490	460.3
Total net assets, beginning of year	<u>10,064,507</u>	<u>9,209,017</u>	9.3
Total net assets, end of year	<u>\$ 14,858,188</u>	<u>\$ 10,064,507</u>	

Lease revenues decreased by \$5,724 which was not significant.

Capital grants and contributions increased by \$722,410 mainly due to the increased funding from the Arizona Department of Transportation for the Authority's capital improvements.

Other revenues increased by \$3,344,047 primarily as a result of the increase in land sales.

The Authority's expenses increased by 8.4%. The more significant factors contributing to the increase are the increase in depreciation due to a significant increase in capital improvements and related operating expenses of the capital improvements.

Budgetary Highlights

The Authority prepares a budget annually which is submitted to the Board of Directors for approval during the spring of each year. The budget is used as a management tool; it is not a legally binding document. The budget and annual comparisons of actual to budget is prepared on the budgetary basis of accounting. There were no significant changes to the budget during the year. Although the budget is not legally adopted, it is an important management tool used throughout the fiscal year. See page 12 for a presentation of the budget to actual comparison for the fiscal year.

Capital Assets and Debt Administration

The Kingman Airport Authority, Inc.'s capital assets as of June 30, 2006 amount to \$11,855,958 (net of accumulated depreciation), an increase of 17%. The capital assets include runways and taxiways; buildings; improvements; machinery and equipment. A large majority of these assets were contributed to the airport directly or were purchased with the aid of federal and state grants.

Major capital asset events during the current fiscal year included the following:

- ◆ The continuation of the Mohave airport drive construction project.
- ◆ The purchase of a fire truck for the airfield.

The following table provides a breakdown of the capital assets of the Kingman Airport Authority, Inc. at June 30, 2006 and 2005.

Capital Assets at June 30, 2006 and 2005
(Net of depreciation)

	<u>2006</u>	<u>2005</u>
Land improvements	\$ 8,739,403	\$ 8,743,003
Buildings and improvements	1,011,897	1,064,676
Furniture, machinery and equipment	383,404	332,593
Construction in progress	<u>1,721,254</u>	<u>-</u>
	<u>\$11,855,958</u>	<u>\$10,140,272</u>

Long-term Debt

At the end of the current fiscal year, the Kingman Airport Authority, Inc. had total long-term obligations outstanding of \$657,089. This debt consists of two separate bank notes with payments made monthly. The Authority reduced its debt by \$52,983 by making regularly scheduled principal and interest payments.

The following schedule shows the outstanding debt of the Kingman Airport Authority, Inc. (both current and long-term) as of June 30, 2006 and 2005. Further detail on the Kingman Airport Authority, Inc.'s outstanding debt may be found in Note 3.C. on page 21.

Outstanding Debt
June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Notes payable	\$ <u>657.089</u>	\$ <u>710.072</u>

Economic Factors and Next Year's Budgets and Rates

The Kingman area economy is currently driven by equity investment and migration from California. New construction and residential home sales are also attracting the interests of commercial developers which in turn spurs interest in manufacturers supplying the construction industry.

This is typical in the Southwest portion of the country in general and Kingman's location makes it logistically suited for a manufacturer to service California, Arizona, Nevada, Utah and New Mexico overnight. Kingman is attracting interest from East Coast and Midwest companies looking to expand operations to keep up with the growth in the Southwest. Proceeds from land sales within the industrial park as a result of this growth will be utilized to construct basic infrastructure and capital improvement projects for the airfield and industrial park.

The Authority's operations will continue to be funded through lease revenues and user fees generated along the flight line and within the industrial park. All new leases include an automatic 3% annual increase in base rate effective July 1, of each year. As older leases expire, they will be replaced with language incorporating the automatic 3% annual increase as well.

Financial contact

This financial report is designed to provide a general overview of the Kingman Airport Authority, Inc.'s finances for all of those with an interest in the government's finances and to demonstrate accountability for the use of public funds. Questions about any of the information provided in this report, or requests for additional financial information should be addressed to:

Kingman Airport Authority, Inc.
Accounting Department
7000 Flightline Drive
Kingman, AZ 86401
928-757-2134

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Basic Financial Statements

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	<u>Business-type Activities - Enterprise Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 2,807,379
Receivables, net	
Accounts receivable	108,686
Intergovernmental receivable	599,876
Deposits	<u>918</u>
Total current assets	<u>3,516,859</u>
Noncurrent assets	
Intangible (net)	150,801
Capital assets	
Non-depreciable	1,721,254
Depreciable (net)	<u>10,134,704</u>
Total noncurrent assets	<u>12,006,759</u>
Total assets	<u>15,523,618</u>
Liabilities	
Current liabilities	
Accrued wages and benefits	8,341
Notes payable - current	<u>55,406</u>
Total current liabilities	<u>63,747</u>
Noncurrent liabilities	
Notes payable	<u>601,683</u>
Total liabilities	<u>665,430</u>
Net assets	
Invested in capital assets, net of related debt	11,198,869
Unrestricted	<u>3,659,319</u>
Total net assets	<u>\$ 14,858,188</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Fund
Operating revenues	
Leases	\$ 541,498
Intergovernmental	<u>46,965</u>
Total operating revenues	<u>588,463</u>
Operating expenses	
Personnel	339,749
Payroll taxes and benefits	90,466
Office expense	22,963
Professional services	107,790
Maintenance and repairs	48,650
Motor pool	22,705
Operational expense	252,830
Depreciation	660,493
Amortization	<u>4,116</u>
Total operating expenses	<u>1,549,762</u>
Operating loss	<u>(961,299)</u>
Nonoperating revenues (expenses)	
Contributions and donations	84,000
Interest revenue	41,637
Application fees	44,000
Miscellaneous revenues	105,416
Interest expense	(35,616)
Land sales	<u>3,257,430</u>
Total nonoperating revenues (expenses)	<u>3,496,867</u>
Income (loss) before contributions and transfers	2,535,568
Capital contributions	<u>2,258,113</u>
Change in net assets	4,793,681
Total net assets, beginning of year	<u>10,064,507</u>
Total net assets, end of year	<u>\$ 14,858,188</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL - (BUDGETARY BASIS)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Original and Final Budget	Actual	Variance with Final Budget
Revenues			
Leases	\$ 644,251	\$ 541,498	\$ (102,753)
Intergovernmental	-	46,965	46,965
Contributions and donations	-	84,000	84,000
Interest revenue	-	41,637	41,637
Application fees	9,000	44,000	35,000
Land sales	1,270,000	3,257,430	1,987,430
Capital contributions	-	2,258,113	2,258,113
Miscellaneous revenues	770,000	105,416	(664,584)
Total operating revenues	<u>2,693,251</u>	<u>6,379,059</u>	<u>3,685,808</u>
Operating expenses			
Personnel	425,862	339,749	86,113
Payroll taxes and benefits	144,502	90,466	54,036
Office expense	23,350	22,963	387
Professional services	71,500	107,790	(36,290)
Maintenance and repairs	55,500	48,650	6,850
Motor pool	18,000	22,705	(4,705)
Operational expense	356,974	252,830	104,144
Debt service	224,544	88,599	135,945
Capital outlay	1,229,062	2,414,929	(1,185,867)
Total operating expenses	<u>2,549,294</u>	<u>3,388,681</u>	<u>(839,387)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 143,957</u>	<u>\$ 2,990,378</u>	<u>\$ 2,846,421</u>

The notes to the basic financial statements are an integral part of this statement.

KINGMAN AIRPORT AUTHORITY, INC.
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Business-type Activities - Enterprise Fund
Cash flows from operating activities	
Receipts from customers	\$ 611,612
Payments to suppliers	(545,404)
Payments to employees	(339,527)
Contributions and donations	84,000
Application fees	44,000
Miscellaneous revenues	<u>105,416</u>
Net cash flows used for operating activities	<u>(39,903)</u>
Cash flows from capital and financing activities	
Capital grants and contributions	1,658,237
Purchases of capital assets and intangibles	(2,414,929)
Principal paid on notes payable	(52,983)
Interest paid on notes payable	(35,616)
Proceeds from sale of land	<u>3,257,430</u>
Net cash flows from capital and financing activities	<u>2,412,139</u>
Cash flows from investing activities	
Interest	<u>41,637</u>
Net cash flows from investing activities	<u>41,637</u>
Net change in cash and cash equivalents	2,413,873
Cash and cash equivalents, beginning of year	<u>393,506</u>
Cash and cash equivalents, end of year	<u>\$ 2,807,379</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating loss	\$ (961,299)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation and amortization	664,609
Contributions and donations	84,000
Application fees	44,000
Miscellaneous revenues	105,416
Change in assets/liabilities:	
Accounts receivable	23,149
Accrued wages and benefits	<u>222</u>
Net cash used for operating activities	<u>\$ (39,903)</u>

The notes to the basic financial statements are an integral part of this statement.

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KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Kingman Airport Authority, Inc. (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to governmental units adopted by the Governmental Accounting Standards Board (GASB). A summary of the Authority's more significant accounting policies follows.

A. Reporting Entity

The Kingman Airport Authority, Inc. (Authority) was incorporated in the State of Arizona in July 1992, as a nonprofit corporation. The Authority operates, maintains, and manages the Kingman Airfield and Industrial Park, collectively known as the Airport for the City of Kingman, Arizona. The Authority is administered by the board of directors who are elected by the membership of the Authority.

The Kingman Airport Authority, Inc. was formed by transferring the assets and liabilities of the Mohave County Airport Authority, Inc., which related to the Kingman Airfield and Industrial Park, to the Kingman Airport Authority, Inc. The Authority leases the real property at no cost from the City of Kingman, Arizona under a long term lease. Primary sources of funding for the authority are rents from subleasing real property, proceeds from the sale of real property located in the Kingman Airport Industrial Park, and grants from other governmental units. Functions financed by the Authority include management, maintenance, and development of the Kingman Airfield and the Kingman Airport Industrial Park. The Authority is considered to be a political subdivision of the State of Arizona, Mohave County and the City of Kingman, Arizona with the responsibility of carrying out the function of airport management.

In evaluating how to define the Authority, for financial reporting purposes, management has identified no potential component units. The decision to include a potential component unit in the reporting entity would have been made by applying criteria set forth by accounting principles generally accepted in the United States of America. Generally, component units are legally separate organizations for which the elected officials of the primary government (i.e., the Authority) are financially accountable. The primary government is financially accountable for a potential component unit if it: appoints a voting majority of the potential component unit's governing body; and, either is able to impose its will on the potential component unit or there is a possibility of the potential component unit to provide specific financial benefits to, or impose specific financial burdens on the primary government.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

In addition, a primary government may be financially accountable for a potential component unit even though the potential component unit may have a separately elected governing board, a board appointed by another government, or a jointly appointed board if the potential component unit is fiscally dependent on the primary government (e.g., the primary government must approve the potential component unit's budget, tax rates, etc.). Because no potential component units were identified in defining the Authority's reporting entity, none have been included in the Authority's reporting entity.

B. Government-wide and fund financial statements

Government-wide financial statements are not presented, as the Authority only engages in business-type activities. The Authority only has one fund, an enterprise fund. Accordingly, the statement of net assets, the statement of revenues, expenses and changes in net assets and the statement of cash flows report information for that single enterprise fund only.

C. Measurement focus, basis of accounting, and financial statement presentation

The statement of net assets and statement of revenues, expenses and changes in fund net assets are reported using the *economic resource measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Such revenue is subject to review by the funding agency, which may result in disallowance in subsequent periods.

The Authority reports the following proprietary fund:

The *Enterprise Fund* is used to account for operations (a) that are financed and operated in manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for the business-type activities subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, cash and investments held by the State Treasurer, and highly liquid investments with maturities of three months or less from the date of acquisition.

State statutes authorize the Authority to invest in obligations of the U.S. Treasury and U.S. agencies, certificates of deposit in eligible depositories, repurchase agreements, obligations of the State of Arizona or any of its counties or incorporated cities, authorities or duly organized school districts, improvement districts in this state and the State Treasurer's Local Government Investment Pool. Investments are stated at fair value.

2. Receivables

All trade receivables are shown net of an allowance for uncollectible receivables. The Authority annually reviews the balance in the reserve account during the budget process to determine if, based on past history, the account is adequate to cover current trade receivables. If judged to be inadequate, an additional amount is budgeted and recorded over the course of the year. Due to the determination that all accounts are deemed collectible, there was no allowance for uncollectibles at June 30, 2006. Receivables from governments are assumed to be entirely collectible and are not included in this analysis.

3. Capital assets

Property, plant and equipment purchased or acquired is carried at historical cost or estimated historical cost. Contributed assets are recorded at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are defined by the Authority as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest capitalized was calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

Depreciation on all assets is provided on a straight-line basis over the following estimated useful lives:

Land improvements	10-30 years
Buildings and improvements	7-30 years
Furniture, machinery and equipment	3-8 years

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

The Authority adopts an annual nonappropriated budget as a management control device. The budget is prepared on the modified accrual basis, which is a different basis of accounting than is used to present the financial statements. (See Note 4.C. for reconciliation).

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and investments

Deposits and investments at June 30, 2006 consist of the following:

Deposits	
Cash on hand	\$ 175
Cash in bank	74,718
Investments	
Money Market Mutual Fund	1,924,115
Certificates of deposit	<u>808,371</u>
Total deposits and investments	<u>2,807,379</u>
Total cash and equivalents	<u>\$ 2,807,379</u>

Deposits - The Authority's deposits at June 30, 2006, were entirely covered by federal depository insurance.

Investments - The Money Market Mutual Fund is not subject to custodial credit risk. All other investments of the Authority are uninsured and unregistered with the securities held by the counterparty's trust department or agent in the Authority's name.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

2. Capital assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Capital assets not being depreciated:				
Construction in Progress	\$ -	\$ 1,721,254	\$ -	\$ 1,721,254
Total capital assets, not being depreciated	<u>-</u>	<u>1,721,254</u>	<u>-</u>	<u>1,721,254</u>
Capital assets being depreciated:				
Land improvements				
Airfield	9,831,717	400,283	-	10,232,000
Industrial park	3,441,646	173,762	-	3,615,408
Buildings and improvements				
Airfield	1,591,258	-	-	1,591,258
Industrial park	2,060	-	-	2,060
Furniture, machinery, and equipment	<u>500,573</u>	<u>80,880</u>	<u>-</u>	<u>581,453</u>
Total capital assets being depreciated	<u>15,367,254</u>	<u>654,925</u>	<u>-</u>	<u>16,022,179</u>
Less accumulated depreciation for:				
Land improvements				
Airfield	(2,880,247)	(395,892)	-	(3,276,139)
Industrial park	(1,650,113)	(181,753)	-	(1,831,866)
Buildings and improvements				
Airfield	(528,367)	(52,710)	-	(581,077)
Industrial park	(275)	(69)	-	(344)
Furniture, machinery and equipment	<u>(167,980)</u>	<u>(30,069)</u>	<u>-</u>	<u>(198,049)</u>
Total accumulated depreciation	<u>(5,226,982)</u>	<u>(660,493)</u>	<u>-</u>	<u>(5,887,475)</u>
Total capital assets, being depreciated, net	<u>10,140,272</u>	<u>(5,568)</u>	<u>-</u>	<u>10,134,704</u>
Business-type activities capital assets, net	<u>\$ 10,140,272</u>	<u>\$ 1,715,686</u>	<u>\$ -</u>	<u>\$ 11,855,958</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

Depreciation expense was charged to functions/programs as follows:

Business-type activities:	
Airfield	\$ 478,671
Industrial Park	<u>181,822</u>
Total depreciation expense - business-type activities	<u>\$ 660,493</u>

3. Construction commitments

The Authority has two active construction projects at June 30, 2006. The projects involve an aircraft drive design and an aircraft rescue fire fighting building. At fiscal year end the Authority's commitments with contractors were as follows:

<u>Project</u>	<u>Business-type</u> <u>Spent-to-date</u>	<u>Remaining</u> <u>Commitment</u>
Airport drive design	\$ 1,652,824	\$ 68,570
Aircraft rescue fire fighting building	<u>68,430</u>	<u>50,710</u>
	<u>\$ 1,721,254</u>	<u>\$ 119,280</u>

4. Intangible assets

The following is a summary of intangible assets recorded in the Enterprise Fund. These intangibles consist of site plans and a promotional video and are being amortized over periods from 7 to 15 years on a straight-line basis.

Intangible assets	\$ 219,307
Less: accumulated amortization	<u>(68,506)</u>
Net intangible assets	<u>\$ 150,801</u>

B. Line of credit payable

The Authority has a line of credit with a local financial institution to provide short-term cash flow up to \$150,000. There was no balance outstanding at June 30, 2006.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

C. Notes payable

Notes payable at June 30, 2006, consisted of the following.

Description	Interest Rates(%)	Maturity	Outstanding Principal June 30, 2006
Mohave State bank loan	4.90	06/15/15	\$ 328,000
Mission bank loan	3.85	07/01/08	<u>329,089</u>
Total notes payable			<u>\$ 657,089</u>

Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	July 1, 2005	Increases	Decreases	June 30, 2006	Due within One Year
Business-type Activities:					
Notes payable	<u>\$ 710,072</u>	<u>\$ -</u>	<u>\$ (52,983)</u>	<u>\$ 657,089</u>	<u>\$ 55,406</u>

Debt service requirements on long-term debt at June 30, 2006 are as follows:

	Business-type Activities	
Year Ending June 30,	Principal	Interest
2007	\$ 55,406	\$ 30,285
2008	57,939	27,751
2009	318,000	14,774
2010	38,449	11,963
2011	40,376	10,036
2012-16	<u>146,919</u>	<u>18,868</u>
	<u>\$ 657,089</u>	<u>\$ 113,677</u>

NOTE 4 - OTHER INFORMATION

A. Risk management

The Kingman Airport Authority, Inc., is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Authority is insured by Arizona State Workers Compensation Insurance Fund for potential job-related accidents.

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
 FISCAL YEAR ENDED JUNE 30, 2006

B. Lease revenues

The Authority subleases, under operating leases, certain property and improvements.

The operating leases have varying terms ranging from a month-to-month basis to twenty-five years. Most leases extending over a one-year period contain a rent adjustment based on the consumer price index. Some leases contain an option to renew for a similar term.

Minimum future rentals to be received on non-cancelable leases as of June 30, 2006, for each of the next five years and in the aggregate are:

Year ended June 30,	
2007	\$ 20,100
2008	20,100
2009	20,100
2010	20,100
2011	19,600
Thereafter	<u>43,883</u>
Total minimum future rentals	<u>\$ 143,883</u>

C. Budgetary basis of accounting

The adopted budget of the Enterprise Fund was prepared on the modified accrual basis. Consequently, the following adjustments are necessary to reconcile budgetary to GAAP basis.

	Enterprise Fund	
	Total Operating Revenues	Total Operating Expenses
Statement of Revenues, Expenditures and Changes in Fund Net Assets	588,463	1,549,762
Nonoperating revenues and expenses	3,532,483	35,616
Adjustments to present data on the budgetary basis		
additions	2,258,113	2,467,912
subtractions	<u>-</u>	<u>(664,609)</u>
Statement of Revenues, and Expenses - Budget and Actual - (Budgetary Basis)	<u>\$ 6,379,059</u>	<u>\$ 3,388,681</u>

KINGMAN AIRPORT AUTHORITY, INC.
NOTES TO THE BASIC FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2006

D. Retirement plans

Defined contribution pension plan

The Authority's 401(a) Retirement Plan is a defined contribution pension plan established by the Authority and administered by Nationwide Life Insurance to provide benefits at retirement to all full-time employees of the Authority. At June 30, 2006, there were six plan members. Plan members are required to contribute 6% of covered salary. The Authority is also required to contribute 6% of covered salary. Plan provisions and contribution requirements are established and may be amended by the Authority's governing board. Covered payroll for the year totalled \$249,850. Employee contributions totalled \$14,991 and employer contributions totalled \$14,991 for the year.

E. FAA commitment for future improvements

The Authority is obligated by the Federal Aviation Administration (FAA) to invest an amount equal to the net proceeds of land sales at the Kingman Airport Industrial Park in improvements to and operations of the Kingman Airfield within five years from the date of the sale. The amount obligated to be spent for airfield improvements and operations at June 30, 2006, is \$347,827. The Authority complied with all regulations regarding its sale of land at the Kingman Airfield and Industrial Park during the 2005-06 fiscal year.

Changes in the commitment for future improvements during the year ended June 30, 2006, were as follows:

Balance, beginning of year	\$ -
Add: land sales during year	3,257,430
Deduct: prior year expenses at Kingman Airfield applied	(828,964)
Deduct: expenses at Kingman Airfield	(2,080,639)
	<u>\$ 347,827</u>

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Supplementary Schedule

KINGMAN AIRPORT AUTHORITY, INC.
ENTERPRISE FUNDS
SCHEDULE OF NET INCOME
FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Airfield	Industrial Park	Totals
Operating revenues			
Leases	\$ 444,901	\$ 96,597	\$ 541,498
Intergovernmental	<u>46,965</u>	<u>-</u>	<u>46,965</u>
Total operating revenues	<u>491,866</u>	<u>96,597</u>	<u>588,463</u>
Operating expenses			
Personnel	151,617	188,132	339,749
Payroll taxes and benefits	41,211	49,255	90,466
Office expense	11,814	11,149	22,963
Professional services	44,851	62,939	107,790
Maintenance and repairs	27,913	20,737	48,650
Motor pool	11,562	11,143	22,705
Operational expense	143,219	109,611	252,830
Depreciation	478,671	181,822	660,493
Amortization	<u>4,116</u>	<u>-</u>	<u>4,116</u>
Total operating expenses	<u>914,974</u>	<u>634,788</u>	<u>1,549,762</u>
Operating loss	<u>(423,108)</u>	<u>(538,191)</u>	<u>(961,299)</u>
Nonoperating revenues (expenses)			
Contributions and donations	-	84,000	84,000
Interest revenue	127	41,510	41,637
Application fees	5,000	39,000	44,000
Miscellaneous revenues	105,416	-	105,416
Interest expense	(33,098)	(2,518)	(35,616)
Land sales	<u>-</u>	<u>3,257,430</u>	<u>3,257,430</u>
Total nonoperating revenues (expenses)	<u>77,445</u>	<u>3,419,422</u>	<u>3,496,867</u>
Net Gain	<u>\$ (345,663)</u>	<u>\$ 2,881,231</u>	<u>\$ 2,535,568</u>